MN HOUSE RESEARCH

Highway Finance

September 2025

Executive Summary

This publication summarizes Minnesota's finance structure for highway systems (including roads and bridges). Most funding comes from outside the state's General Fund. A framework set by the Minnesota Constitution directs revenue to transportation purposes from three transportation-related taxes: a motor fuels tax, a tax on vehicle registration, and a motor vehicle sales tax. Federal aid, revenue from various other state sales taxes, and bonds form other notable sources of highway funding. Funds are distributed to state and local road systems based on a combination of several constitutional and statutory formulas.

In fiscal year 2024, state and federal highway funding amounted to about $4.27 billion (including bond proceeds). Regarding just state dollars, trunk highway system funding was $1.98 billion and local road systems funding totaled $1.4 billion (distributed across county, city, and town recipients).

Legislative changes in recent years have included some notable modifications to highway funding and the finance structure. In particular, the 2023 Legislature modified several aspects of highway (as well as transit) finance, including to modify the motor vehicle registration tax rate and structure; raise the rate for the motor vehicle sales tax; establish a regional transportation sales and use tax in the Twin Cities metropolitan area; and reallocate additional revenue to transportation from the state general sales tax attributed to sales of automotive repair and replacement parts. The 2025 Legislature further revised the allocation of general sales tax attributed to sales of automotive parts and amended surcharges imposed on electric vehicles.

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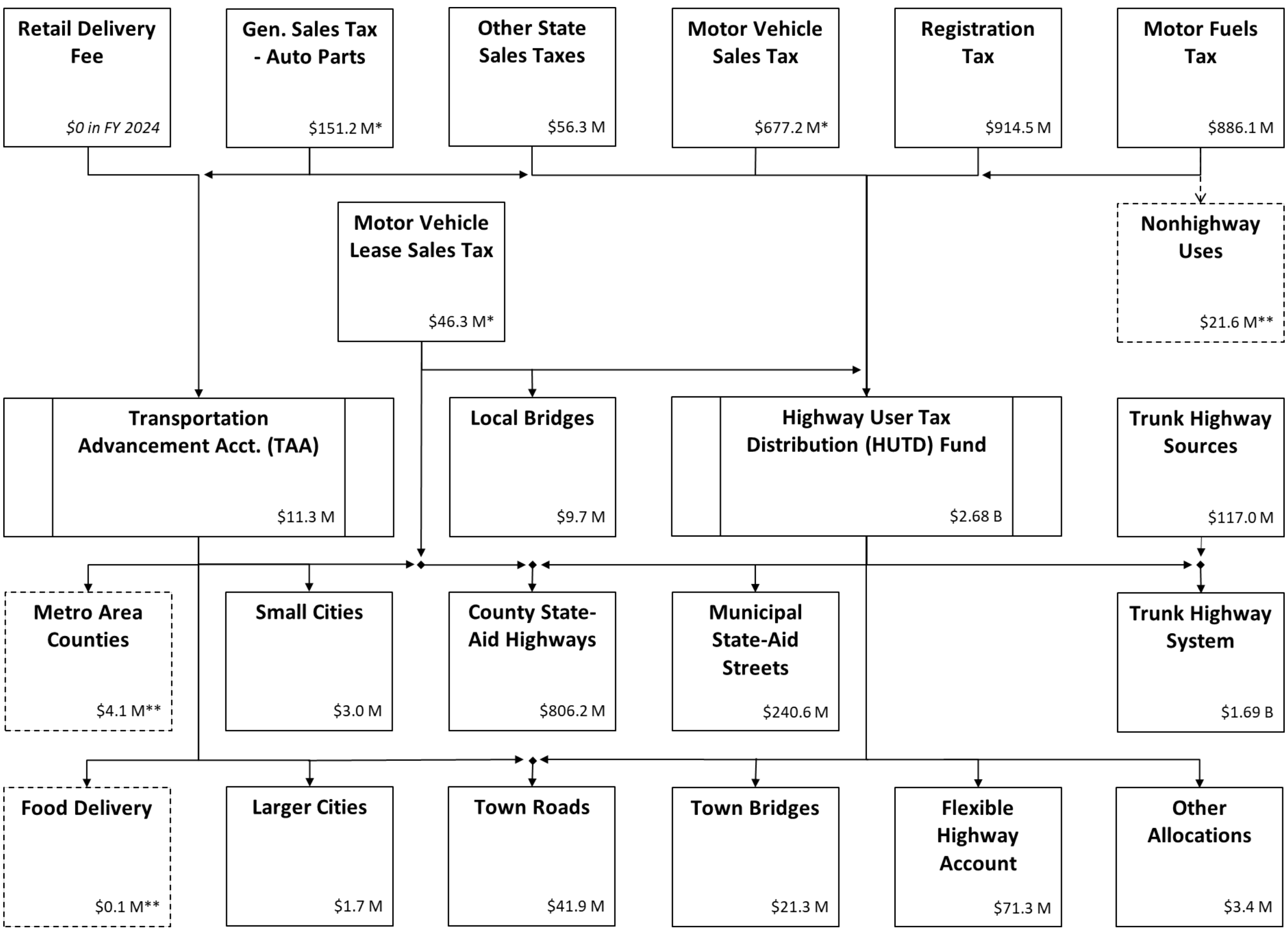
Finance Overview

The chart below summarizes the core flow of state highway funding for fiscal year 2024. It identifies key funding sources, allocations, and recipients (which are discussed further in later sections of this brief).

State Highway Finance Flow, FY 2024



Notes:
* Amounts are only highway-related portions.
** Amounts include nonhighway funding or flexible funding for some nonhighway purposes.
Amounts are in millions (M) or billions (B) for fiscal year 2024.
"Other State Sales Taxes" includes general sales tax attributed to vehicle rentals and the motor vehicle rental tax.
Some amounts include other sources that are not shown (e.g., fees and investment income).
The chart does not show: (1) onetime General Fund direct appropriations (namely for local road and bridge programs as well as various specified projects); (2) $322.4 million in fiscal year 2024 spending from bond proceeds (for both state and local roads); (3) allocations to transit from motor vehicle sales tax and motor vehicle lease sales tax; and (4) revenue from federal, regional, and local sources.
Motor fuels tax revenue goes into the Highway User Tax Distribution Fund and then transfers are made to various accounts primarily related to off-highway vehicle use (reflected in “Nonhighway Uses”).
The retail delivery fee first went into effect July 1, 2024, so revenue begins in FY 2025.

Constitutional and Statutory Framework

The Minnesota Constitution is integral to the state's transportation finance structure, particularly in establishing a framework for funding highways. ("Highways" is used in a broad sense to encompass streets and bridges at the state as well as local level.) Among its features, the constitution:

- dedicates funding to be "used solely for highway purposes," through authorized taxes on motor fuels, motor vehicle registration, and motor vehicle sales;
- establishes accounting funds for transportation finance;
- allocates tax revenues among state, county, and municipal roads; and
- establishes requirements on use of the funds as well as characteristics of each road system. Minn. Const. art. XIV.

Highway finance involves several formulas. A constitutional distribution formula addresses funding for both state and local road systems, and local funds are further allocated through multiple statutory formulas (such as to distribute aid among counties). State statutes further specify fiscal policies such as taxation rates and requirements on local aid.

Major Highway Funding Sources

Motor Fuels Tax

The motor fuels tax is a significant highway funding source, with revenue totaling $886.1 million in fiscal year 2024. The tax is imposed at a per-gallon rate that varies across fuel classifications. It is collected from petroleum distributors.

Since January 1, 2025, the rate is 31.8 cents per gallon for gasoline, diesel, and some gasoline blends. This reflects a 3.3-cent increase over the prior rate of 28.5 cents per gallon, which had been in effect since July 1, 2012. The rate includes a 3.5-cent per gallon surcharge that is tied to debt service on trunk highway bonds authorized in 2008. Minn. Stat. §§ 296A.07, subd. 3; 296A.083. The rate for other fuel types, such as E85 and compressed natural gas (CNG), is proportional to that of gasoline based on the energy content of each form of fuel.

The tax rate increase is due to indexing, which was enacted in 2023 legislation. Laws 2023, ch. 68, art. 3, §§ 22-23. Under the indexing provision, an annual rate adjustment is calculated based on the percentage increase in the Minnesota Highway Construction Cost Index. The Department of Revenue must calculate an adjusted rate each August 1, which goes into effect the following January 1 for that calendar year. Starting in 2025, the annual percentage change in tax rate is capped at 3 percent. Minn. Stat. §§ 296A.07, subd. 3; 296A.08, subd. 2. The following table provides the latest and estimated impending tax rate increases from indexing.

Gasoline and Diesel Tax Rate Estimates (in cents/gallon)

Category	CY 2025	CY 2026	CY 2027	CY 2028	CY 2029
Indexing adjustment	3.3	0.8	0.2	0.9	0.6
Est. adjusted rate	**31.8**	**32.6**	**32.8**	**33.7**	**34.3**

Notes
Indexing amounts are for each rate adjustment (not cumulative).
Rates are not shown for special fuels, petroleum tank release cleanup fee, and inspection fee.

The state constitution dedicates tax revenue from motor fuel "used for propelling vehicles on the public highways of this state." Minn. Const. art. XIV, § 10. When the fuel is not used for transportation on public roads, revenue is handled in a couple of ways.

- A portion of tax revenue—about $21.6 million in fiscal year 2024—is attributed to fuel use in nonhighway activities, such as operating ATVs and motorboats. The money is transferred by formula into various accounts related to those activities. Minn. Stat. § 296A.18. The funds are primarily administered by the Department of Natural Resources.
- Taxes are refunded if paid on fuel used in some nontaxed circumstances that include nonhighway commercial operations like farming, some nonemergency medical transportation, and transit service.[1]

Registration Tax

The state imposes a motor vehicle registration tax (also known as tab fees) on motor vehicles domiciled in Minnesota. The tax applies annually to passenger vehicles as well as to trucks and other vehicles that use public streets and highways. Fiscal year 2024 revenue totaled $914.5 million (which recently surpassed the motor fuels tax as the single largest state revenue source for highways).

Passenger vehicles. For most passenger vehicles[2] the registration tax is determined through a formula that is largely based on a combination of the vehicle's original price and its age. The tax is determined as:

1) a flat $10 component; plus
2) an amount based on manufacturer's suggested retail price (MSRP) that is calculated from the following:

[1] In addition, the motor fuels tax is not imposed on diesel fuel that is used exclusively for nontaxable purposes, which is known as dyed fuel due to the red dye added to make it readily identifiable.

[2] This category includes most vehicles commonly recognized as a personal vehicle, including smaller pickup trucks and vans. Minn. Stat. § 168.002, subd. 24.

- a base of (i) 1.575 percent of the MSRP, or (ii) 1.54 percent of the MSRP plus the destination charge for vehicles first registered prior to November 16, 2020; multiplied by
- a devaluation factor, which is a declining percentage based on the vehicle's age.

The devaluation factor is identified in a statutory schedule (sometimes referred to as the "depreciation schedule") that starts at 100 percent for the first year of vehicle life and decreases as the vehicle ages. The year of vehicle life reflects the vehicle's model year. (The tax due thereby declines as a vehicle gets older, since a smaller share of MSRP is used in the tax calculation.) The table below identifies the devaluation factors used for vehicles from new (i.e., first year of vehicle life) to ten years old.

Registration Tax Depreciation Schedule

Vehicle Year of Life	Devaluation Factor
1st	100%
2nd	95%
3rd	90%
4th	80%
5th	70%
6th	60%
7th	50%
8th	40%
9th	25%
10th	10%

For a vehicle in its eleventh or succeeding year of life, the MSRP-based portion of the tax calculation is replaced with a $20 fixed amount. Minn. Stat. § 168.013, subd. 1a. The flat $10 component still applies, so the lowest total registration tax on a passenger vehicle is $30.[3]

The 2023 Legislature modified several aspects of registration tax calculation, which included increasing the base tax rate, revising the devaluation factors used in the schedule, and lowering the fixed amount for older vehicles (from $25 to $20). The changes went into effect January 1, 2024 (for registration periods starting on or after that date). The 2025 Legislature modified the surcharge on electric vehicles and imposed a new surcharge on plug-in hybrid electric vehicles. Laws 2025, 1st spec. sess., ch. 8, art. 2, §§ 15-17.

[3] Other fees apply and are not discussed here.

Other vehicles. Various provisions specify registration taxes for vehicles that do not fit the passenger vehicle classification (which includes most personal vehicles such as sedans and SUVs, as well as vans and smaller pickup trucks). Trucks are taxed in different ways on the basis of weight and age. The tax on trucks and truck-tractors depends on weight following a schedule established by statute, with a 25 percent reduction after eight years of life. For farm trucks there is a weight-based tax that is reduced after eight years of life (the percentage depreciation depends on vehicle weight). Buses are similarly taxed on weight following a separate schedule, with reductions beginning in the third year of life. Motorcycles carry a flat tax of $10 annually. Minn. Stat. § 168.013.

Exemptions. There are tax exemptions for some vehicles, such as those owned by veterans with a total service-connected disability as well as by educational institutions and used to transport pupils to and from school. Minn. Stat. § 168.012, subds. 1 & 13.

Motor Vehicle Sales Tax (MVST)

The motor vehicle sales tax (MVST) is a tax on the sale of new and used motor vehicles registered in Minnesota, imposed instead of the state general sales tax. It applies at a rate of 6.875 percent, which was increased (from 6.5 percent) in 2023 legislation. Laws 2023, ch. 68, art. 3, § 30. MVST is collected by auto dealers or by deputy registrars when the vehicle is registered. Fiscal year 2024 revenue directed to highways totaled $677.2 million.

Sales of some older automobiles as well as collector's vehicles are taxed in flat amounts instead of on a percentage basis. The flat tax is $10 for vehicles that are at least ten years old and have a resale value of under $3,000, and is $150 for some collector vehicles. Minn. Stat. §§ 297B.02, 297B.025.

Historically, MVST revenue had been allocated both to the state's General Fund and to transportation purposes, with periodic changes over time in the share of funds provided to transportation. Voters in 2006 approved a constitutional amendment dedicating all MVST revenue to transportation purposes, which was phased in over fiscal years 2008 to 2012.

The constitution also places restrictions on the allocation between roads and transit, requiring that:

- "no more than 60 percent" of the revenue goes to highways; and
- "not less than 40 percent" goes to public transit assistance. Minn. Const. art. XIV, § 13.

MVST funds are distributed by statutory formula at 60 percent for highways and 40 percent to transit. Minn. Stat. § 297B.09, subd. 1. In addition to the rate increase, the 2023 Legislature revised allocation of the transit portion of MVST revenue (to direct 34.3 percent of MVST revenue to Twin Cities metropolitan area transit and 5.7 percent to transit in Greater Minnesota). Laws 2023, ch. 68, art. 3, § 32.

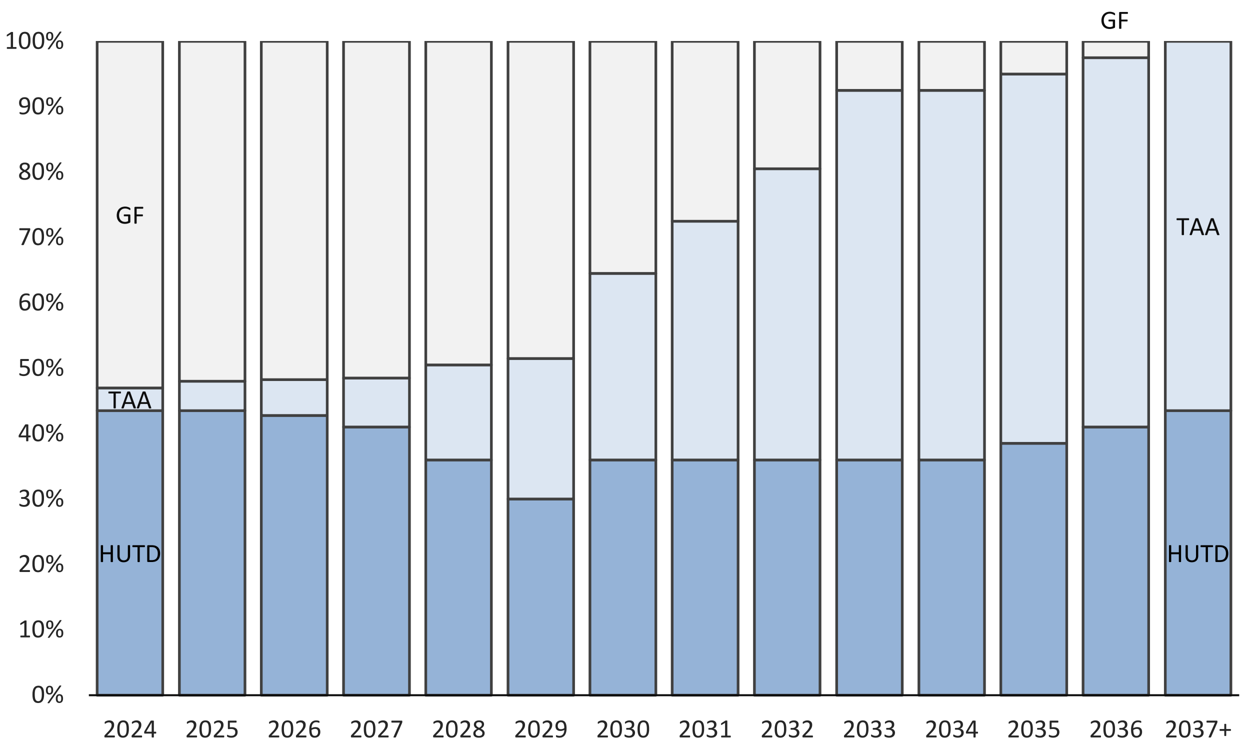
General Sales Tax – Automotive Parts

The state general sales tax is imposed on retail sales of various tangible property and some services at a total rate of 6.875 percent.[4] From general sales tax revenue attributed to sales of automobile repair and replacement parts, a portion is directed to transportation. The transportation allocation in fiscal year 2024 totaled $151.2 million.

The 2023 Legislature reallocated general sales tax revenue attributed to automobile parts, with revenue set to increase to transportation over a ten-year period (and corresponding General Fund reductions).[5] Subsequently, the 2025 Legislature revised the allocation schedule to redirect comparatively larger shares to the General Fund for several years. The 2025 reallocation reduces the amount to the Highway User Tax Distribution (HUTD) Fund by various percentages over FY 2026 to 2036, while a phase-in to the transportation advancement account (TAA) is unchanged. This has the effect of delaying full revenue allocation to transportation purposes.

The chart below outlines the schedule for sales tax revenue allocations.

General Sales Tax – Automotive Parts Revenue Distribution, By Fiscal Year



4 The rate includes a 0.375 percent increment that is allocated separately following a 2008 constitutional amendment known as the "Legacy amendment" (which funds outdoor heritage, water, parks and trails, and arts and cultural heritage activities).

5 Prior to FY 2024, a flat $145.6 million per year had been directed to the HUTD Fund with the remainder going to the General Fund.

Various State Sales Taxes

A few other state sales tax revenue streams are also directed to transportation, which primarily go to state and local roads. The sources are outlined below.

- **General sales tax – vehicle rentals.** Apart from constitutionally dedicated funds under the Legacy amendment[6], the entirety of state general sales tax revenue resulting from short-term vehicle rentals of up to 28 days (also termed short-term leases) is directed to the HUTD Fund. Minn. Stat. § 297A.94 (f). Revenue in fiscal year 2024 was $23.3 million.

- **Motor vehicle rental tax.** A separate motor vehicle rental tax is also imposed on short-term rentals at a 9.2 percent rate. All of the revenue goes to the HUTD Fund. Minn. Stat. § 297A.94 (d). The tax yielded about $33 million in fiscal year 2024.

- **Motor vehicle lease sales tax**. Longer term leases of passenger vehicles and smaller trucks are subject to the general sales tax. The revenue stream is also known as the motor vehicle lease sales tax (MVLST), although it is not a separate tax. After allocation of Legacy amendment funds, all of the revenue is directed to a few transportation purposes according to a statutory formula (discussed in the Funding Allocation section below). Minn. Stat. § 297A.815, subd. 3. In fiscal year 2024, MVLST revenue allocated to highway purposes amounted to $46.3 million.[7]

Retail Delivery Fee

The retail delivery fee is a $0.50 charge on the delivery of most tangible personal goods purchased from a retailer. Minn. Stat. §§ 168E.01–168E.09. It first went into effect at the start of fiscal year 2025 (i.e., July 1, 2024), so there is no delivery fee revenue for fiscal year 2024.

Broadly, the fee is generally imposed in the same situations when the state general sales tax applies, but there are both additions and exceptions. Compared to the general sales tax, the key addition is that delivery of retail purchases of clothing (other than diapers) is subject to the fee. Exemptions from the delivery fee include:

- purchases in which the total on a transaction is below a $100 threshold (excluding state and local sales taxes);
- some specified items such as prepared food and various baby products;
- sales from bars and restaurants;
- purchases by an entity who is exempt from paying state sales tax;
- delivery following a sale of some liquefied fuel products that are subject to the state general sales tax when sold;
- road construction materials;

[6] This refers to the 0.375 percent general sales tax increment, which is allocated separately (i.e., to non-transportation purposes).

[7] This amount excludes the portion allocated by formula to transit purposes.

- purchased items that are delivered on vehicles for which a permit is issued by MnDOT or a road authority (e.g., for some overdimensional loads); and
- purchases from (1) a business that made retail sales totaling below $1 million in the previous calendar year; or (2) a marketplace provider when facilitating a sale for a retailer that made retail sales under $100,000 using that marketplace provider.

The fee is only imposed once per transaction regardless of how many items are purchased or the number of shipments made.

Additional Sources

Other notable sources of highway funding are as follows.

- **Federal aid** is a significant funding source. It is provided through a number of programs that include formula-based allocations to the state as well as discretionary assistance. Fiscal year 2024 aid totaled $856.7 million, divided $640.4 million for trunk highways and $216.3 million for local roads.

- **Miscellaneous trunk highway sources** for the state's trunk highway system come from various Minnesota Department of Transportation activities, such as construction work performed under an agreement with local units of government, fees for permits, land and equipment sales, and fines. Revenue from these sources totaled $117.0 million in fiscal year 2024.

- **General Fund appropriations** for road systems are sometimes included in transportation budgets. Over the years, the General Fund has not typically been a substantial funding source for highways (other than in bonding, discussed below). However, the 2023 Legislature enacted a number of onetime General Fund appropriations for road systems, primarily for various legislatively specified projects. The funds totaled roughly $168.5 million, with $43.6 million directed to the trunk highway system and just under $125.0 million allocated to local roads.

Bonding

Historically, the legislature has used state bonds to fund both state and local highway projects. There are several forms of bonding; the most relevant are highlighted below.

- **Trunk highway bonds** are a specialized form of general obligation bonding that are constitutionally limited to capital projects that are part of, or functionally related to, the trunk highway system. Repayment of debt on the bonds is from the Trunk Highway Fund.

- **General obligation (G.O.) bonds** are regularly authorized for local roads and bridges; they are also known as local road and bridge bonding. (The legislature has also authorized general obligation bonding for other transportation capital such as ports, bus facilities, and light rail.) The bond proceeds cannot be used for projects on the trunk highway system. Debt service is paid from the General Fund. Minn. Const. arts. XI, § 5 (e); XIV, § 11.

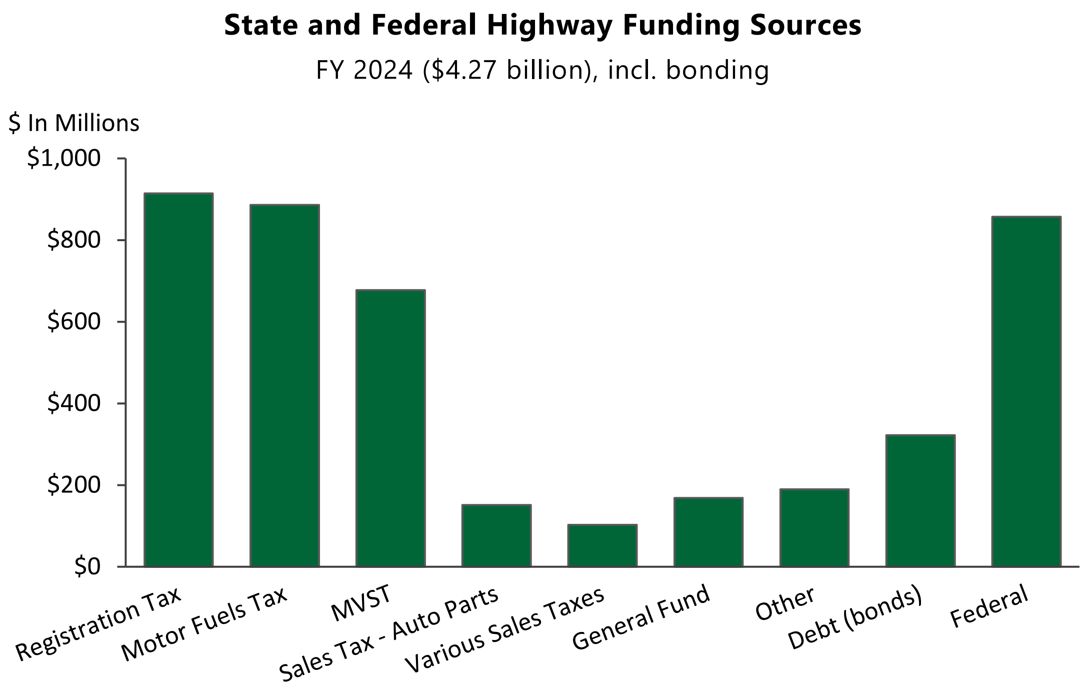
Since bonds carry an obligation of future repayment with interest, proceeds from bond issuances represent debt. Nonetheless, use of bond proceeds enables spending and can therefore be viewed as a funding source.

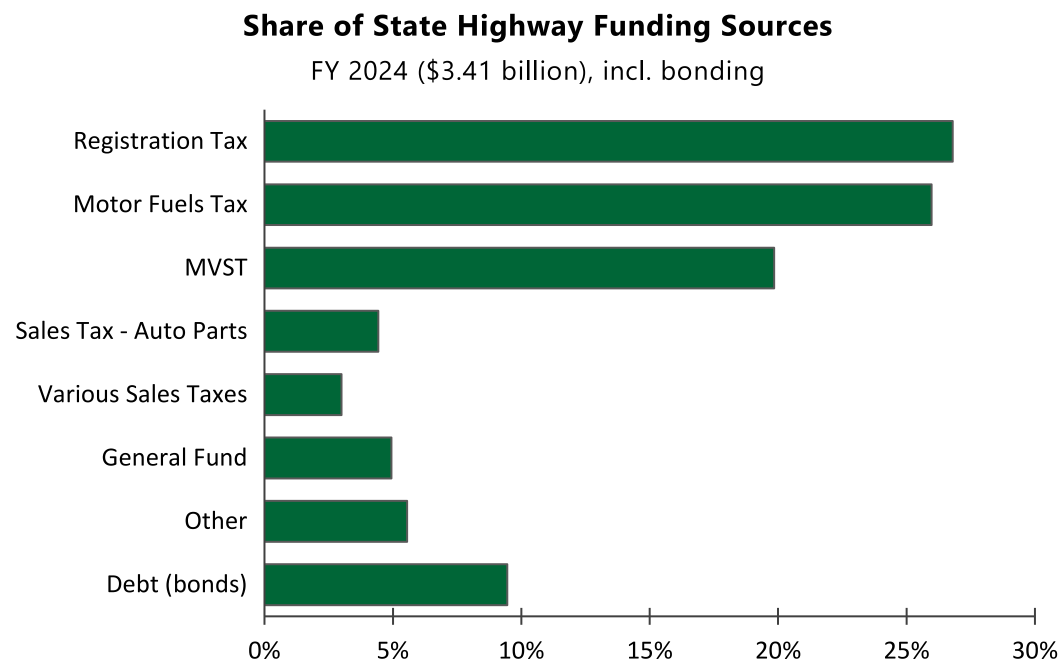
Legislative *authorizations* in law to issue bonds (and the corresponding appropriations of bond sale proceeds) are distinct from *expenditures* of the proceeds from bond sales. Highway projects can commonly take place over multiple fiscal years, and bond proceeds spending from a given authorization can be similarly spread across years.

In fiscal year 2024, funds utilized from bonding totaled $322.4 million for state and local roads. This amount represents funding expenditures for project costs in the fiscal year.

Highway Funding Amounts

The charts below summarize fiscal year 2024 state and federal highway funding, which is for the trunk highway system as well as aid to local government. The first chart outlines funding sources from both state and federal sources, while the second chart shows the percentage shares of the state sources. In both charts, bonding debt is treated as a form of funding.





Notes (prior two charts): (1) "Motor Fuels Tax" category includes revenue for fuel attributed to nonhighway uses; (2) "MVST" category only contains highway funding; (3) "Other" category is primarily trunk highway system revenue and includes some investment income; (4) both "Debt (bonds)" and "Federal" categories include funds for state as well as local road systems; and (5) amounts exclude some federal funds for traffic safety and enforcement.

Funding Allocation

Most state funding for road systems is distributed based on allocation formulas. In some cases, cascading layers of formulas are used to determine the amount provided to a particular recipient (like a county or city).

HUTD Fund Constitutional Formula

Revenue from the core transportation-related taxes (excluding a portion of the motor vehicle sales tax) as well as other sources initially goes into the Highway User Tax Distribution Fund. The HUTD Fund is constitutionally established and mainly serves as a distribution passthrough to other highway-related funds.

Following some transfers and special allocations (such as for tax collection costs), the bulk of HUTD Fund money is then allocated through a constitutional framework. A pair of constitutional formulas apply to distribution of the revenue.

95 percent distribution. First, 95 percent is distributed into dedicated highway funds, as outlined in the following table. This is a constitutional formula.

HUTD Fund Distribution

Share	Destination	Use
62%	Trunk Highway Fund	Trunk highway construction, maintenance, and administration.
29%	County State-Aid Highway (CSAH) Fund	County roads in the state-aid system; apportioned to counties based on two statutory formulas. Minn. Stat. § 162.07.
9%	Municipal State-Aid Street (MSAS) Fund	City streets in the state-aid system; apportioned to cities based on a statutory formula. Minn. Stat. § 162.13.

Five percent "set-aside." Second, allocation of the remaining 5 percent in the HUTD Fund is somewhat less constricted. The money can be directed by statute, but under the constitution must only go into one or more of the three core highway funds (the Trunk Highway Fund, CSAH Fund, and the MSAS Fund). The set-aside is currently put into the CSAH Fund and then divided as follows, based on requirements set in state statute. Minn. Stat. § 161.081.

HUTD Set-Aside Allocation

Share	Destination	Use
53.5%	Flexible highway account	(1) Twin Cities metropolitan area county highways[a], (2) "turnbacks"—generally, trunk highways turned over to cities or counties, (3) safety improvements on local roads, and (4) routes of regional significance
30.5%	Town road account	Town roads; allocated to counties proportionally based on town road miles, to be distributed to towns. Minn. Stat. § 162.081.
16%	Town bridge account	Town bridges

Notes
[a] A share of funds in the flexible highway account must be allocated to counties in the Twin Cities metropolitan area. The distribution is proportional based on county population, except that the populations of Minneapolis and St. Paul are not counted. Minn. Stat. § 161.081, subd. 3.

A constitutional provision specifies that the split within the 5 percent set-aside cannot be changed more than once every six years. The latest change went into effect July 1, 2009.

Motor Vehicle Sales Tax (MVST)

MVST revenue is divided by formula between highways and transit. Minn. Stat. § 297B.09.

MVST Allocation

Share	Destination	Use
60%	HUTD Fund	State and local highways (note: this revenue is then allocated in the formulas outlined in the previous HUTD Fund description)
34.3%	Metropolitan area transit	Transit in Twin Cities metropolitan area
5.7%	Greater Minnesota transit	Transit systems in Greater Minnesota

State Sales Taxes

The table below outlines various state sales tax sources that are allocated to transportation purposes.

State Sales Taxes Revenue

Revenue Source	Share	Destination	Use
General sales tax – auto parts (for FY 2024 only)[a]:			
	43.5%	HUTD Fund	State and local highways
	3.5%	TAA	Various, as further allocated by a separate formula
	53.%	General Fund	Undesignated (note: this portion is not directed to transportation)
General sales tax – vehicle rental	All revenue	HUTD Fund	State and local highways
Vehicle rental tax	All revenue	HUTD Fund	State and local highways
Motor vehicle lease sales tax (MVLST)[b]:			
	38%	Some Twin Cities metropolitan area counties[c]	County state-aid highways
	38%	Greater Minnesota transit	Transit systems
	13%	Local Bridge program	Local bridge replacement and rehabilitation
	11%	HUTD Fund	State and local highways

Notes

[a] Percentages are set to change under a phase-in to transportation uses over FY 2024-37.

[b] MVLST amounts are net of Legacy amendment funds.

[c] The revenue does not go to Hennepin or Ramsey County. It is distributed proportionally based on the population of the other five metropolitan counties. Minn. Stat. § 297A.815, subd. 3 (c).

Revenue into the HUTD Fund is then allocated following formulas outlined in the previous HUTD Fund description.

Transportation Advancement Account (TAA)

The 2023 Legislature established the transportation advancement account as part of structural changes to transportation finance (distributing new highway funding sources). Money in the account is also allocated by formula. Minn. Stat. § 174.49, subd. 3.

Share	Destination	Use
36%	Twin Cities metropolitan area counties	Various transportation uses[a]; apportioned to counties based on a statutory formula
27%	Small cities assistance account	Small Cities Assistance program; apportioned to small cities based on a statutory formula
15%	Larger cities assistance account	Road systems in cities that receive MSAS funds; apportioned by statutory formula
11%	Town road account	Town roads
10%	CSAH Fund	County state-aid highways
1%	Food delivery support account	Grants to nonprofit organizations for food-related services

Notes

[a] The allowable uses are further specified by formula: 41.5 percent is for active transportation and transportation corridor safety studies; 41.5 percent is for road repair and preservation; and 17 percent is for various activities (including transit and transportation project greenhouse gas emission mitigation projects). Minn. Stat. § 174.49, subd. 6.